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PROTECTING OLDER AMERICANS AGAINST OVERPAYMENT OF INCOME TAXES

(A Revised Checklist of Itemized Deductions for Use in Taxable Year 1976)

PREPARED BY THE

SPECIAL COMMITTEE ON AGING UNITED STATES SENATE

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PREFACE

Over the years the Committee on Aging has published a checklist of itemized deductions to help protect older and younger Americans from overpaying their income taxes.

Hearings conducted by the Committee have made it clear that many individuals pay more income taxes than are legally due.

Some are overwhelmed by the complexities in the tax law. Others are totally unaware of helpful deductions that can save them precious dollars.

The Committee is again updating its summary to reflect recent changes in the tax law for 1976. Major revisions are required because of the enactment of the Tax Reform Act of 1976. Several provisions in the new law—such as the credit for employment-related child and dependent care expenses, the liberalization of the personal exemption credit, and the new elderly credit—will ease the tax burden for many older Americans and other taxpayers. But these measures will be of little value unless taxpayers are aware of their existence.

Once again, the Committee emphasizes that this summary is not intended to be an all-inclusive checklist for every conceivable circumstance. However, it can be useful for the vast majority of taxpayers in assuring that they claim deductions, credits, and exemptions to which they are legitimately entitled. Moreover, the checklist can provide guidance in determining whether it would be more advantageous to itemize deductible expenses, claim the standard deduction, or use the tax tables.

This summary may be valuable in other ways as well. Upon reading the checklist, taxpayers may discover that they failed to claim allowable deductions on prior returns. These individuals, however, can obtain a refund for qualifying deductible expenditures which were overlooked by filing an amended return—Form 1040X—for the year in question. But Form 1040X must be filed within three years after the original return was due, or filed or within two years from the time the tax was paid, whichever is later.

The Committee also wants to thank the dedicated and competent staff of the Internal Revenue Service who reviewed this publication for accuracy, clarity, and readability. They have performed a valuable public service which will help many Americans in preparing their tax returns.

FRANK CHURCH,
Chairman.
HIRAM L. FONG,
Ranking Minority Member.

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CHECKLIST OF ITEMIZED DEDUCTIONS FOR SCHEDULE A (FORM 1040)

MEDICAL AND DENTAL EXPENSES

Medical and dental expenses (unreimbursed by insurance or otherwise) are deductible to the extent that they exceed 3% of a taxpayer's adjusted gross income (line 15c, Form 1040).

INSURANCE PREMIUMS

One-half of medical, hospital or health insurance premiums are deductible (up to $150) without regard to the 3% limitation for other medical expenses. The remainder of these premiums can be deducted, but is subject to the 3% rule.

DRUGS AND MEDICINES

Included in medical expenses (subject to 3% rule) but only to extent exceeding 1% of adjusted gross income (line 15c, Form 1040).

OTHER MEDICAL EXPENSES

Other allowable medical and dental expenses (subject to 3% limitation):

Abdominal supports (prescribed by a doctor)
Acupuncture services
Ambulance hire
Anesthetist
Arch supports (prescribed by a doctor)
Artificial limbs and teeth
Back supports (prescribed by a doctor)
Braces

Capital expenditures for medical purposes (e.g., elevator for persons with a heart ailment)—deductible to the extent that the cost of the capital expenditure exceeds the increase in value to your home because of the capital expenditure. Taxpayer should have an independent appraisal made to reflect clearly the increase in value.

Cardiographs
Chiropodist
Chiropractor
Christian Science practitioner, authorized
Convalescent home (for medical treatment only)
Crutches
Dental services (e.g., cleaning, X-ray, filling teeth)
Dentures
Dermatologist
Eyeglasses
Food or beverages specially prescribed by a physician (for treatment of illness, and in addition to, not as substitute for, regular diet; physician's statement needed)
Gynecologist
Hearing aids and batteries
Home health services
Hospital expenses
Insulin treatment
Invalid chair
Lab tests
Lipreading lessons (designed to overcome a handicap)
Neurologist
Nursing services (for medical care, including nurse's board paid by you)
Occupational therapist
Ophthalmologist
Optician
Optometrist
Oral surgery
Osteopath, licensed
Pediatrician
Physical examinations
Physical therapist
Physician
Podiatrist
Psychiatrist
Psychoanalyst
Psychologist
Psychotherapy
Radium therapy
Sacroiliac belt (prescribed by a doctor)
Seeing-eye dog and maintenance
Speech therapist
Splints
Supplementary medical insurance (Part B) under Medicare
Surgeon
Telephone/teletype special communications equipment for the deaf
Transportation expenses for medical purposes (7¢ per mile plus parking and tolls or actual fares for taxi, buses, etc.)
Vaccines
Vitamins prescribed by a doctor (but not taken as a food supplement or to preserve general health)
Wheelchairs
Whirlpool baths for medical purposes
X-rays

TAXES

Real estate
State and local gasoline
General sales
State and local income
Personal property

If sales tax tables are used in arriving at your deduction, you may add to the amount shown in the tax tables only the sales tax paid on the purchase of five classes of items: automobiles, airplanes, boats, mobile homes, and materials used to build a new home when you are your own contractor.

When using the sales tax tables, add to your adjusted gross income any nontaxable income (e.g., Social Security, Veterans' pensions or compensation payments, Railroad Retirement annuities, workmen's compensation, untaxed portion of long-term capital gains, recovery of pension costs, dividends untaxed under the dividend exclusion, interest on municipal bonds, unemployment compensation and public assistance payments).

CONTRIBUTIONS

In general, contributions may be deducted up to 50 percent of your adjusted gross income (line 15c, Form 1040). However, contributions to certain private nonprofit foundations, veterans organizations, or fraternal societies are limited to 20% of adjusted gross income.

Cash contributions to qualified organizations for (1) religious, charitable, scientific, literary or educational purposes, (2) prevention of cruelty to children or animals, or (3) Federal, State or local governmental units (tuition for children attending parochial schools is not deductible). Fair market value of property (e.g., clothing, books, equipment, furniture) for charitable purposes. (For gifts of appreciated property, special rules apply. Contact local IRS office.)

Travel expenses (actual or 7¢ per mile plus parking and tolls) for charitable purposes (may not deduct insurance or depreciation in either case).

Cost and upkeep of uniforms used in charitable activities (e.g., scoutmaster).

Purchase of goods or tickets from charitable organizations (excess of amount paid over the fair market value of the goods or services).

Out-of-pocket expenses (e.g., postage, stationery, phone calls) while rendering services for charitable organizations.

Care of unrelated student in taxpayer's home under a written agreement with a qualifying organization (deduction is limited to $50 per month).

INTEREST

Home mortgage.

Auto loan.

Installment purchases (television, washer, dryer, etc.).

Bank credit card—can deduct the finance charge as interest if no part is for service charges, loan fees, credit investigation fees, or similar charges.

Points—deductible as interest by buyer where financing agreement provides that they are to be paid for use of lender's money. Not deductible if points represent charges for services rendered by the lending institution (e.g., VA loan points are service charges and are not deductible as interest). Not deductible if paid by seller (are treated as selling expenses and represent a reduction of amount realized).

Penalty for prepayment of a mortgage—deductible as interest.

Revolving charge accounts—may deduct the "finance charge" if the charges are based on your unpaid balance and computed monthly.

Other charge accounts for installment purchases—may deduct the lesser of (1) 6% of the average monthly balance (average monthly balance equals the total of the unpaid balances for all 12 months, divided by 12) or (2) the portion of the total fee or service charge allocable to the year.

CASUALTY OR THEFT LOSSES

Casualty (e.g., tornado, flood, storm, fire, or auto accident provided not caused by a willful act or willful negligence) or theft losses to nonbusiness property—the amount of your casualty loss deduction is generally the lesser of (1) the decrease in fair market value of the property as a result of the casualty, or (2) your adjusted basis in the property. This amount must be further reduced by any insurance or other recovery, and, in the case of property held for personal use, by the $100 limitation. You may use Form 4684 for computing your personal casualty loss.

CREDIT FOR CHILD AND DEPENDENT CARE EXPENSES

Certain payments made for child and dependent care may now be claimed as a credit against tax instead of as an itemized deduction.

If a taxpayer maintained a household that included a child under age 15 or a dependent or spouse incapable of self-care,

a taxpayer may be allowed a 20% credit for employment related expenses. These expenses must have been paid during the taxable year in order to enable the taxpayer to work either full or part time.

For detailed information, see the instructions for Form 2441 on page 17.

MISCELLANEOUS

Alimony and separate maintenance (periodic payments).

Appraisal fees for casualty loss or to determine the fair market value of charitable contributions.

Union dues.

Cost of preparation of income tax return.

Cost of tools for employee (depreciated over the useful life of the tools).

Dues for Chamber of Commerce (if as a business expense).

Rental cost of a safe-deposit box for income-producing property.

Fees paid to investment counselors.

Subscriptions to business publications.

Telephone and postage in connection with investments.

Uniforms required for employment and not generally wearable off the job.

Maintenance of uniforms required for employment.

Special safety apparel (e.g., steel toe safety shoes or helmets worn by construction workers; special masks worn by welders).

Business entertainment expenses.

Business gift expenses not exceeding $25 per recipient.

Employment agency fees under certain circumstances.

Cost of a periodic physical examination if required by employer.

Cost of installation and maintenance of a telephone required by the taxpayer's employment (deduction based on business use).

Cost of bond if required for employment.

Expenses of an office in your home if employment requires it.

Payments made by a teacher to a substitute.

Educational expenses required by your employer to maintain your position or for maintaining or sharpening your skills for your employment.

Political Campaign Contributions.—Taxpayers may now claim either a deduction (line 32, Schedule A, Form 1040) or a credit (line 52, Form 1040), for campaign contributions to an individual who is a candidate for nomination or election to any Federal, State, or local office in any primary, general or special election. The deduction or credit is also applicable for any (1) committee supporting a candidate for Federal, State, or local elective public office, (2) national committee of a national political party, (3) State committee of a national political party, or (4) local committee of a national political party. The maximum deduction is $100 ($200 for couples filing jointly). The amount of the tax credit is one-half of the political contribution, with a $25 ceiling ($50 for couples filing jointly).

Presidential Election Campaign Fund.—Additionally, taxpayers may voluntarily earmark $1 of their taxes ($2 on joint returns) for the Presidential Election Campaign Fund.

For any questions concerning any of these items, contact your local IRS office. You may also obtain helpful publications and additional forms by contacting your local IRS office.

OTHER TAX RELIEF MEASURES

Filing status	*Required to file a tax return if gross income is at least—*
Single (under age 65)	$2,450
Single (age 65 or older)	3,200
Qualifying widow(er) under 65 with dependent child	2,850
Qualifying widow(er) 65 or older with dependent child	3,600
Married couple (both spouses under 65) filing jointly	3,600
Married couple (1 spouse 65 or older) filing jointly	4,350
Married couple (both spouses 65 or older) filing jointly	5,100
Married filing separately	750

Additional Personal Exemption for Age.—Besides the regular $750 exemption allowed a taxpayer, a husband and wife who are 65 or older on the last day of the taxable year are each entitled to an additional exemption of $750 because of age. You are considered 65 on the day before your 65th birthday. Thus, if your 65th birthday is on January 1, 1977, you will be entitled to the additional $750 personal exemption because of age for your 1976 Federal income tax return.

General Tax Credit.—A new general tax credit is available. For this credit, the taxpayer may claim the greater of (1) $35 per exemption shown on line 6d, Form 1040A or Form 1040, or (2) 2 percent of taxable income (line 15, Form 1040A or line 47, Form 1040) but not more than $180 ($90, if married, filing separately).

Multiple Support Agreements.—In general, a person may be claimed as a dependent of another taxpayer, provided five tests are met: (1) Support, (2) gross income, (3) member of household or relationship, (4) citizenship, and (5) separate return. But in some cases, two or more individuals provide support for an individual, and no one has contributed more than half the person's support. However, it still may be possible for one of the individuals to be entitled to a $750 dependency deduction if the following requirements are met for multiple support:

1. Two or more persons—any one of whom could claim the person as a dependent if it were not for the support test—together contribute more than half of the dependent's support.

2. Any one of those who individually contribute more than 10% of the mutual dependent's support, *but only one of them*, may claim the dependency deduction.

3. Each of the others must file a written statement that he will not claim the dependency deduction for that year. The statement must be filed with the income tax return of the person who claims the dependency deduction. Form 2120 (Multiple Support Declaration) may be used for this purpose.

Sale of Personal Residence by Elderly Taxpayers.—A taxpayer may elect to exclude from gross income part or, under certain circumstances, all of the gain from the sale of his personal residence, provided:

1. He was 65 or older before the date of the sale, and

2. He owned and occupied the property as his personal residence for a period totaling at least 5 years within the 8-year period ending on the date of the sale.

Taxpayers meeting these two requirements may elect to exclude the entire gain from gross income if the adjusted sales price of their residence is $20,000 (this amount will increase to $35,000 for taxable years beginning after December 31, 1976) or less. (This election can only be made once during a taxpayer's lifetime.) If the adjusted sales price exceeds $20,000 (this amount will increase to $35,000

for taxable years beginning after December 31, 1976), an election may be made to exclude part of the gain based on a ratio of $20,000 (this amount will increase to $35,000 for taxable years beginning after December 31, 1976) over the adjusted sales price of the residence. Form 2119 (Sale or Exchange of Personal Residence) is helpful in determining what gain, if any, may be excluded by an elderly taxpayer when he sells his home.

Additionally, a taxpayer may elect to defer reporting the gain on the sale of his personal residence if within 18 months before or 18 months after the sale he buys and occupies another residence, the cost of which equals or exceeds the adjusted sales price of the old residence. Additional time is allowed if (1) you construct the new residence or (2) you were on active duty in the U.S. Armed Forces. Publication 523 (Tax Information on Selling Your Home) may also be helpful.

Credit for the Elderly.—A new, expanded, and simplified credit for the elderly has replaced the former more complex retirement income credit.

A taxpayer may be able to claim this credit and reduce taxes by as much as $375 (if single), or $562.50 (if married filing jointly), if the taxpayer is:

(1) Age 65 or older, or

(2) Under age 65 and retired under a public retirement system.

To be eligible for this credit, taxpayers no longer have to meet the income requirement of having received over $600 of earned income during each of any 10 years before this year.

For more information, see instructions for Schedules R and RP.

Earned Income Credit.—A taxpayer who maintains a household for a child who is under age 19, or is a student, or is a disabled dependent, may be entitled to a special payment or credit of up to $400. This is called the earned income credit. It may come as a refund check or be applied against any taxes owed. Generally, if a taxpayer reported earned income and had adjusted gross income (line 15c, Form 1040) of less than $8,000, the taxpayer may be able to claim the credit.

Earned income means wages, salaries, tips, other employee compensation, and net earnings from self-employment (generally amount shown on Schedule SE (Form 1040) line 13).

A married couple must file a joint return to be eligible for the credit. Certain married persons living apart with a dependent child may also be eligible to claim the credit.

For more information, see instructions for Form 1040 or 1040A.

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